

**AUDIT REPORT  
OF  
PHELPS COUNTY COURT**

**JULY 1, 2002 THROUGH JUNE 30, 2003**

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# PHELPS COUNTY COURT

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# PHELPS COUNTY COURT

## SUMMARY OF COMMENTS

During our audit of Phelps County Court, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

1. ***Segregation of Duties:*** One individual was capable of handling all phases of a transaction from beginning to end.
2. ***Unrecorded Investment Activity:*** Investment activity was not being recorded in the accounting system in a timely manner.
3. ***Non-waiverable Court Costs:*** The County Court was not consistent in its claiming of non-waiverable court costs.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the Court.

Draft copies of this report were furnished to the Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Court declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

# PHELPS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

### 1. Segregation of Duties

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted the office of the County Court had a lack of segregation of duties since one person was capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of possible errors or irregularities. However, due to a limited number of personnel, an adequate segregation of duties is not possible without additional cost. Personnel are under the direction of both the Nebraska State Court Administrator and the Presiding Judge. We have noted this comment in previous audits.

We recommend the County Court and the Nebraska State Court Administrator review this situation. As always, the cost of hiring additional personnel versus the benefit of a proper segregation of duties must be weighed.

### 2. Unrecorded Investment Activity

Sound accounting practices, as well as good internal control, require the accurate and timely entry of all financial activity into the Court's accounting system. When financial activity is not recorded in a timely manner, the Court's accounting system does not provide a true picture of the financial transactions and/or trust balances of the Court. As of June 30, 2003, the Court had a net total of \$563 in unrecorded investment activity which consisted of:

- \$1,057 in interest.
- \$35 in deposits to an investment money market account.
- \$529 in disbursements from the investment money market account.

The origination of the underlying transactions dated as far back as October 2001. During the audit, the Clerk Magistrate stated she had numerous verbal contacts with the Court Administrator's Office seeking guidance and/or assistance to resolve this issue, however, no support has yet been received by the Court in response.

This was also an issue noted in the prior audit.

We recommend the County Court implement procedures to ensure timely recording of all activity, including that which is related to its investment accounts. In addition, we recommend the County Court

# PHELPS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 2. Unrecorded Investment Activity (Concluded)

take steps to promptly record all previously unrecorded activity in order to bring the financial information up-to-date in the accounting system.

*County Court's Response: As indicated on the report I have been in contact with the Justice personnel since the audit conducted in June of 2003 to try to find a solution to posting the account activity. I contacted the Justice Help Desk about this problem during the audit in June of 2003, several times by phone since that time, spoke to the Justice personnel at the Magistrates Convention, and contacted them again this May at which time I sent a worksheet indicated the transactions that need to be posted.*

*The Justice personnel have indicated that the Justice program is not an accounting program, but they think that they have found an answer to the problem. I will continue to work with the Justice personnel to ensure that proper procedure in posting investment activity is followed and that timely recording of all activity of investment account are up-to-date.*

### 3. Non-waiverable Court Costs

Neb. Rev. Stat. Section 29-2709 R.S.Supp., 2003, states, when any costs in misdemeanor, traffic, felony preliminary, or juvenile cases in county court, except for those costs provided for in subsection (3) of section 24-703 (Judge's Retirement Fee), two dollars of the fee provided in section 33-107.01 (Legal Services Fee), the Court Automation Fee provided in section 33-107.03, and the uniform data analysis fee provided in section 47-633, are found by a county judge to be uncollectible for any reason, including the dismissal of the case, such costs shall be deemed waived unless the judge, in his or her discretion, enters an order assessing such portion of the costs as by law would be paid over by the Court to the State Treasurer.

During testing of twenty non-monetary receipts, the following was noted:

- When defendants were credited for time spent in jail in lieu of paying fines/costs, the County Court also waived those costs which, according to Statute, are non-waiverable.
- The Court was inconsistent in its claiming of court costs. For example, one instance was noted in which the Court claimed \$1 of the Law Enforcement Improvement Fund fee and waived the remaining \$1 of this fee; a fee which is waiverable in its entirety by Statute. Additionally, an instance was noted in which the Court waived the entire Legal Services Fee of \$5, despite only \$2 of this fee being non-waiverable.

We recommend the County Court ensure the amount of non-waiverable court costs on dismissed and/or otherwise uncollectible cases, including cases involving the jailing of defendants, be waived and/or claimed only in accordance with Statute.

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### PHELPS COUNTY COURT

#### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Phelps County Court as of and for the fiscal year ended June 30, 2003, as listed in the Table of Contents. The financial statement is the responsibility of the Court's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statement presents only the Court's Agency Funds activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of Phelps County Court for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Phelps County Court as of June 30, 2003, and the related activity for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2004, on our consideration of Phelps County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

June 22, 2004

  
Deputy State Auditor

PHELPS COUNTY COURT  
 HOLDREGE, NEBRASKA  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**

For the Fiscal Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
<b>ASSETS</b>				
Cash and Deposits	\$ 129,424	\$ 487,895	\$ 472,553	\$ 144,766
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 4,933	\$ 60,501	\$ 59,969	\$ 5,465
Law Enforcement Fees	322	3,193	3,269	246
Interest	3	96	99	-
State Judges Retirement Fund	351	3,613	3,436	528
Automation Fees	-	8,876	7,976	900
Legal Services Fees	406	7,557	7,336	627
Due to County Treasurer:				
Regular Fines	10,441	112,947	114,348	9,040
Overload Fines	675	6,275	6,625	325
Regular Fees	33	3,675	3,630	78
Due to Municipalities:				
Regular Fines	52	1,006	998	60
Regular Fees	-	1,408	1,283	125
Trust Fund Payable	112,208	278,748	263,584	127,372
Total Liabilities	\$ 129,424	\$ 487,895	\$ 472,553	\$ 144,766

The accompanying notes are an integral part of the financial statement.



**PHELPS COUNTY COURT**  
**NOTES TO FINANCIAL STATEMENT**  
For the Fiscal Year Ended June 30, 2003

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Phelps County Court is established by State Statute and is administratively operated through the Court Administrator's Office of the Nebraska Supreme Court, which is part of the State of Nebraska reporting entity. The Statement of Changes in Assets and Liabilities Arising from Cash Transactions of the County Court reflects only the Agency Funds activity of the Court; the receipts, and their subsequent disbursement to the appropriate entities for which they were collected. The financial statement does not reflect the personal services expenses of the Court, which are paid by the Nebraska Supreme Court, or the operating expenses, which are paid by Phelps County.

**B. Basis of Accounting**

The accounting records of the County Court Agency Funds are maintained, and the Statement of Changes in Assets and Liabilities Arising from Cash Transactions has been prepared, on the cash receipts and disbursements basis of accounting. Under this basis of accounting, fines, fees, and receipts relating to trust funds are shown as additions to assets and as an increase in the related liability when received. Likewise, disbursements are shown as deductions to assets and a decrease in the related liability when a check is written. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting. Under GAAP, Agency Funds would be reported in the Statement of Net Assets. Agency Funds are not reported in the Statement of Changes of Fiduciary Net Assets. Agency Funds are used to report resources held by the reporting government in a purely custodial capacity. Agency Funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

**2. Deposits and Investments**

Funds held by the County Court are deposited and invested in accordance with rules issued by the Supreme Court as directed by Neb. Rev. Stat. Section 25-2713 R.R.S. 1995. Funds are generally consolidated in an interest-bearing checking account; however, the Court may order certain trust funds to be invested separately. Any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation are required by Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The June 30, 2003, carrying amount of total deposits, which includes a checking account, money market account, and certificates of deposit, was \$144,766. The bank balance was \$145,483. All funds were entirely covered by federal depository insurance.

# STATE OF NEBRASKA

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### PHELPS COUNTY COURT

#### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statement of Phelps County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated June 22, 2004. The report was modified to emphasize that the financial statement presents only the Agency Funds of Phelps County Court prepared on the basis of cash receipts and disbursements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Phelps County Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted a certain immaterial instance of noncompliance that we have reported to management of Phelps County Court in the Comments Section of this report as Comment Number 3 (Non-waiverable Court Costs).

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Phelps County Court's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to

provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Phelps County Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Segregation of Duties).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted another matter involving internal control over financial reporting that we have reported to the management of Phelps County Court in the Comments Section of the report as Comment Number 2 (Unrecorded Investment Activity).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

June 22, 2004

  
Deputy State Auditor